

Message Text

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PAGE 01 BONN 08869 01 OF 03 241755Z
ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 COME-00 EB-07 INR-07 LAB-04
NSAE-00 SIL-01 DODE-00 PM-04 H-01 L-03 NSC-05
PA-01 PRS-01 SP-02 SS-15 USIA-06 OMB-01 TRSE-00
HEW-04 IO-13 /088 W
-----241828Z 025028 /44

R 241745Z MAY 77
FM AMEMBASSY BONN
TO SECSTATE WASHDC 8505
INFO AMCONSUL BREMEN
AMCONSUL DUSSELDORF
AMCONSUL HAMBURG
AMCONSUL STUTTGART
AMCONSUL FRANKFURT
AMCONSUL MUNICH
USMISSION USBERLIN
USMISSION EC BRUSSELS
AMEMBASSY PARIS
AMEMBASSY LONDON
AMEMBASSY ROME

LIMITED OFFICIAL USE SECTION 01 OF 03 BONN 08869

E.O. 11652: N/A
TAGS: ELAB, GW
SUBJECT: NET REAL WAGE GAIN UP DESPITE HEFTY TAXES

REF: A-54, FEBRUARY 24, 1977

SUMMARY: THE ISSUE OF WAGE AND SOCIAL SECURITY TAXES
SKIMMING OFF A GROWING PORTION OF WAGE INCREASES HAS
INITIATED A LIVELY PUBLIC DEBATE IN RECENT WEEKS AND/A
PROBLEM FREQUENTLY MENTIONED IN OUR CONVERSATIONS WITH
LABOR AND OTHER SOURCES. VARIOUS PRIVATE STUDIES CON-
CLUDE THAT WAGE INCREASES OF 5.5 PERCENT TO 6 PERCENT
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PAGE 02 BONN 08869 01 OF 03 241755Z

SHRINK TO 1.9 TO 4.0 PERCENT AFTER TAXES, DEPENDING ON
THE WORKER'S SALARY AND FAMILY SIZE. NONETHELESS, THE
NET REAL WAGE GAIN IS SUBSTANTIALLY UP OVER RECENT YEARS.
END SUMMARY.

1. ACCORDING TO PRESS REPORTS, THE IFO ECONOMIC
RESEARCH INSTITUTE ESTIMATES THAT THE OVERAL TAX

BURDEN (INCLUDING WAGE AND SOCIAL SECURITY TAXES) AFFECTING THE GROSS EARNINGS OF AN AVERAGE WORKER WILL INCREASE FROM 29.65 PERCENT IN 1976 TO 31.15 PERCENT IN 1977. GIVEN THE GENERALLY PROGRESSIVE TAX STRUCTURE, THIS MEANS THAT FOR EACH DM 1 WHICH AN AVERAGE WORKER RECEIVES AS AN INCREASE IN HIS GROSS WAGES, ONLY 51.6 PFENNIG WOULD REMAIN AS NET GAIN AND TAKE-HOME PAY, WHILE 48.4 PFENNIGS WOULD FLOW INTO REVENUE AND SOCIAL SECURITY FUNDS.

2. A MORE DETAILED BREAKDOWN OF THE 48.4 PFENNIG TAX BURDEN IS BROKEN DOWN AS FOLLOWS:

24.5 PFENNIGS FOR REVENUES

1.6 PFENNIGS FOR CHURCH TAX (A COMPULSORY LEVY

FROM ALL REGISTERED MEMBERS OF THE PROTESTANT OR CATHOLIC CHURCHES)

9.7 PFENNIGS FOR OLD AGE INSURANCE

11.5 PFENNIGS FOR HEALTH INSURANCE

1.1 PFENNIGS FOR UNEMPLOYMENT INSURANCE

3. THE ASSOCIATION OF GERMAN TAX PAYERS (BUND DEUTSCHER STEUERZAHLER), A PRIVATE ORGANIZATION, COMES TO SIMILAR CONCLUSIONS. IT BASES ITS MODEL CALCULATIONS ON AN AVERAGE 6 PERCENT PAY BOOST IN 1977 FOR AN AVERAGE SKILLED WORKER (SINGLE) AND A WHITE COLLAR WORKER WITH SPECIAL QUALIFICATIONS (MARRIED, TWO CHILDREN).

MODEL A

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PAGE 03 BONN 08869 01 OF 03 241755Z

SKILLED BLUE COLLAR WORKER (SINGLE)

1976 1977

MONTHLY GROSS EARNINGS	2,000.	2,120.
WAGE AND CHURCH TAX	378.66	424.77
TOTAL SOCIAL SECURITY TAXES	330.12	359.92
(OLD AGE, HEALTH, UNEMPLOY-		

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PAGE 01 BONN 08869 02 OF 03 241759Z
ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 COME-00 EB-07 INR-07 LAB-04
NSAE-00 SIL-01 DODE-00 PM-04 H-01 L-03 NSC-05
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LIMITED OFFICIAL USE SECTION 02 OF 03 BONN 08869

MENT INSURANCE)

TOTAL TAX DEDUCTIONS	708.78	774.69
MONTHLY NET EARNINGS	1,291.22	1,345.31

MODEL B

QUALIFIED WHITE COLLAR WORKER (MARRIED, TWO CHILDREN)

1976	1977
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PAGE 02 BONN 08869 02 OF 03 241759Z

MONTHLY GROSS EARNINGS	3,400.	3,604.
WAGE AND CHURCH TAX	562.11	625.54
TOTAL SOCIAL SECURITY TAXES	465.	510.

(OLD AGE, HEALTH, UNEMPLOY-
MENT INSURANCE)

TOTAL TAX DEDUCTIONS	1,027.11	1,135.54
MONTHLY NET EARNINGS	2,372.89	2,468.46

4. IN MODEL A, A 6 PERCENT WAGE HIKE (DM 120) RESULTS IN ONLY DM 54.09 IN EXTRA TAKE-HOME PAY, OR 45.1 PERCENT OF THE GROSS INCREASE. IN MODEL B, THE MARRIED WAGE-EARNER HELD ON TO DM 95.57 OF THE TOTAL DM 204 OR 46.8 PERCENT. FOR PRACTICAL PURPOSES, THEN, THE STUDY CONCLUDED, WAGE INCREASES OF 6 PERCENT REALLY MEANT ONLY 4 PERCENT TO THE WAGE-EARNER.

5. (COMMENT: THESE MODEL CALCULATIONS WERE BASED ON EXISTING SOCIAL SECURITY TAXES WITHOUT TAKING THE CONTEMPLATED AMENDMENTS INTO ACCOUNT. IF SUCH PROPOSED LEGISLATION SHOULD GO INTO EFFECT AS OF JULY 1, AS SCHEDULED, THE NET GAINS WOULD BE FURTHER REDUCED. END COMMENT.)

6. THE TAX OFFICIALS UNION (DEUTSCHE STEUER-GEWERKSCHAFT), AN AFFILIATE OF THE FEDERATION OF GERMAN CIVIL SERVANTS (DBB), WHICH PROVIDED THE FOLLOWING ANALYSIS TO THE LABOR ATTACHE, HAS CALCULATED THREE DIFFERENT MODEL CASES REFLECTING THE NET GAIN WHICH AN EMPLOYEE EARNED ON THE BASIS OF A 5.5 PERCENT PAY INCREASE IN 1976.

1975	1976	PERCENT INCREASE
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PAGE 03 BONN 08869 02 OF 03 241759Z

A) A SINGLE EMPLOYEE

MONTHLY GROSS EARNINGS	1,350	1,420	5.5
MONTHLY NET EARNINGS	949.32	976.82	2.8

B) A SINGLE EMPLOYEE

MONTHLY GROSS EARNINGS	2,000	2,110	5.5
MONTHLY NET EARNINGS	1,343.31	1,368.63	1.9

C) A MARRIED EMPLOYEE WITH TWO CHILDREN

MONTHLY GROSS EARNINGS	2,800	2,940	5.5
MONTHLY NET EARNINGS	1,858.05	1,901.49	2.3

7. SOME POLITICIANS AND OFFICIALS IN THE FEDERAL EMPLOYMENT SERVICE HOLD THAT HIGH TAX RATES TEND TO DISCOURAGE THE UNEMPLOYED FROM LOOKING FOR A NEW JOB. WHEN COMPARING NET INCOMES THEY FIND THAT UNEMPLOYMENT COMPENSATION IN MANY CASES IS ONLY INSIGNIFI-

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PAGE 01 BONN 08869 03 OF 03 241800Z
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LIMITED OFFICIAL USE SECTION 03 OF 03 BONN 08869

CANTLY SMALLER THAN THE NET EARNINGS WHICH THEY WOULD
DRAW FROM A NEW JOB. MOREOVER, MOONLIGHTING HAS BECOME
INCREASINGLY POPULAR AMONG UNEMPLOYED WITH TECHNICAL
SKILLS WHO THUS HAVE AN OPPORTUNITY TO INCREASE THEIR
INCOME WHILE ESCAPING TAXATION. THE ASSOCIATION OF
HANDICRAFT SHOP-OWNERS, FOR EXAMPLE, HAS ESTIMATED THAT
THE TOTAL SALES VOLUME ARISING FROM ILLEGAL MOON-
LIGHTING NOW COMES UP TO ABOUT DM 25 BILLION ANNUALLY,
OR ABOUT 10 PERCENT OF THE OFFICIALLY REGISTERED ANNUAL
SALES VOLUME OF HANDICRAFT SHOPS IN THE FRG.
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PAGE 02 BONN 08869 03 OF 03 241800Z

8. COMMENT: THE INCREASING BURDEN OF TAXES ON WAGE-EARNERS HELPS EXPLAIN WHY BOTH OF THE CDU/CSU OPPOSITION AND THE SPD/FDP COALITION PARTIES HAVE BEEN SO RELUCTANT TO SUGGEST A FURTHER AND DIRECT INCREASE IN OLD AGE INSURANCE CONTRIBUTIONS WHICH WOULD HAVE BEEN NECESSARY TO RESTORE THE FINANCIAL VIABILITY OF THE OLD AGE INSURANCE FUNDS. INSTEAD THEY HAVE SOUGHT OTHER, MORE INDIRECT ALTERNATIVES.

9. FROM A MACROECONOMIC POINT OF VIEW, THE 1977 WAGE INCREASE PICTURE IS NOT THAT BAD DESPITE THE INDIVIDUAL EXAMPLES OF THE MODEL CALCULATIONS OF THE SPECIAL INTEREST GROUPS CITED. THE RECENT JOINT FORECAST OF THE MAJORITY OF THE ECONOMIC RESEARCH INSTITUTES PREDICTS THAT IN 1977 THE GROSS WAGES AND SALARIES PER EMPLOYEE WILL RISE BY 8 PERCENT (THE FRG FORECASTS 8 TO 9 PERCENT) WHICH, WHEN NETTED OF TAXES AND SOCIAL SECURITY CONTRIBUTIONS, LEAVES A 6.5 PERCENT INCREASE ACCORDING TO THEIR CALCULATIONS. IF ONE TAKES INTO ACCOUNT THE ANTICIPATED PRIVATE CONSUMPTION DEFLATOR OF 4 PERCENT, THAT STILL LEAVES A 2.5 PERCENT NET REAL WAGE INCREASE PER EMPLOYEE. BY WAY OF COMPARISON, IN 1976 NET REAL WAGES PER EMPLOYEE DECLINED BY 0.1 PERCENT, WHILE THEY ROSE BY 1.1 PERCENT IN 1975. THEREFORE, WHAT IS SHAPING UP FOR 1977 IS A SIGNIFICANT REAL IMPROVEMENT OVER THE RECENT PAST FOR WAGE EARNERS' TAKE-HOME PAY.
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